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Comprehension Test for Bank Exams (IBPS Clerk Pre, SBI Clerk Pre, and IBPS RRB)

Passage No. 99

Direction: Study the following information carefully and answer the question given below.

If the financial performance of India's largest lender is anything to go by, an end to the severe bad loans crisis may be much farther beyond the horizon than previously anticipated. For the first time in almost 19 years, the State Bank of India reported a quarterly loss of Rs 2,416 crore for the three months ended December, compared with a net profit of Rs 2,610 crore in the year-earlier period. While the figures are not strictly comparable after SBI completed merger with its associates, the loss was the result of both a massive increase in provisions to account for bad loans and a substantial amount of mark-to-market losses on its holding of government bonds. Provisions for non-performing assets (NPAs) more than doubled to about Rs 17,760 crore, from about Rs 7,200 crore in the third quarter of 2016-17. On treasury operations, SBI recorded a loss of about Rs 3,255 crore, versus a profit of about Rs 4,776 crore in the comparable period. The bank revealed that an audit by the Reserve Bank of India showed a divergence of Rs 23,239 crore in the way it classified assets at the end of the last financial year, which led to increase in provisions in the last quarter. Most of these reclassified assets are linked to troubled projects in sectors including power and telecom. SBI, of course, is not the only lender to have had its assets forcibly reclassified by the RBI. Private sector lenders have also been found guilty of pushing troubled assets under the carpet until the RBI called their bluff.

According to a joint study by Assocham and Crisil, gross NPAs in the banking system are estimated to increase to Rs 9.5 lakh crore by March 2018, from Rs 8 lakh crore a year earlier. In that case, write-offs recognising losses may be the most honest and practical way to deal with the bad loans problem. So the RBI in the coming months should continue to push banks, both public and private, to promptly recognise the stressed loans on their portfolios. Incidentally, Prime Minister Narendra Modi last week laid the blame for bad loans on the previous government. While it is quite true that the present bad loans crisis has been a long time in the making, the problem of lax corporate governance, which has plagued public sector banks and contributed in no small measure to the present crisis, still remains largely unaddressed by the government. Even the latest plan to recapitalise public sector banks may achieve little more than giving some temporary relief to lenders for the sake of reviving credit growth. The bad loans problem is likely to remain a festering sore and risks undermining the health of the economy until meaningful structural reforms to the banking system are undertaken.

Questions:

1. Which of the following is/are true as per the passage?

I.   According to a joint study by Assocham and Crisil, gross NPAs in the banking system are estimated to increase to Rs 9.5 lakh crore by March 2018, from Rs 8 lakh crore in 2017.
II.   SBI is the only lender to have had its assets forcibly reclassified by the RBI.
III. In terms of provisioning, SBI recorded a loss of about Rs 3,255 crore in 2018, versus a profit of about Rs 4,776 crore in the comparable period.

A. Only II   B. Only I   C. Only I and III   D. Only II and III   E. None of the above

2. As per the passage, what can be some possible steps taken to rectify the situation of bad loans meaningfully?

I.   Banks should honestly recognize stressed loans in their respective portfolios.
II.   Address corporate governance issues plaguing the banking sector.
III. Earmark more money for bank recapitalization.

A. Only III   B. Only I   C. Only I and II   D. Only II and III   E. All of the above

3. What was the most important reason for such a huge increase in provisioning by SBI for the last quarter?

A. n audit by the RBI showed SBI had erroneously classified a huge amount of assets and had had to reclassify the same in the last quarter.
B. RBI has made it mandatory for lenders to compulsorily refer a proportion of NPAs to the NCLT for arbitration.
C. A sudden increase in bad loans in the infrastructure sector.
D. RBI has implemented a new regime wherein all the bad loans have to be recognized in 180 days and arbitration to be started on the same, failing which lenders would be penalized.
E. None of the above

4. What were the reasons for SBI suffering such huge losses in the previous quarter?

I.   Increase in provisioning as part of accounting for bad loans.
II.   Mark to market losses on government bonds
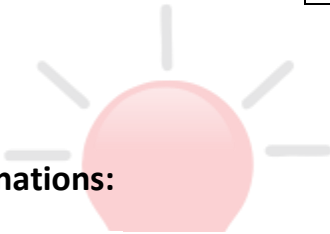III. Mark to market losses on corporate debt securities.

A. Only II   B. Only I and II   C. Only II and III   D. Only I and III   E. All of the above

5. Why is it said that an end to the severe bad loans crisis may be much farther beyond the horizon than previously anticipated?

A. Due to the RBI withdrawing all previous restructuring schemes for resolution.
B. Because RBI ordered an Asset Quality Review for all the banks in order to account for all NPAs.
C. Because the nation's largest lender reported a huge loss for the last quarter results vis-à-vis profits before.
D. Because SBI forms a very small proportion of the gross NPAs prevailing in the Banking Industry.
E. None of the above

Correct Answers:

1	2	3	4	5
B	C	A	B	C

Explanations:

1. Refer to:

'According to a joint study by Assocham and Crisil, gross NPAs in the banking system are estimated to increase to Rs 9.5 lakh crore by March 2018, from Rs 8 lakh crore a year earlier.'
Statement I is correct.

'SBI, of course, is not the only lender to have had its assets forcibly reclassified by the RBI.'
Statement II is incorrect.

'On treasury operations, SBI recorded a loss of about Rs 3,255 crore, versus a profit of about Rs 4,776 crore in the comparable period.'
Statement III is incorrect.

Hence, option B is correct.

2. Refer to: 'RBI in the coming months should continue to push banks, both public and private, to promptly recognise the stressed loans on their portfolios. Incidentally, Prime Minister Narendra Modi last week laid the blame for bad loans on the previous government. While it is quite true that the present bad loans crisis has been a long time in the making, the problem of lax corporate governance, which has plagued public sector banks and contributed in no small measure to the present crisis, still remains largely unaddressed by the government. Even the latest plan to recapitalise public sector banks may achieve little more than giving some temporary relief to lenders for the sake of reviving credit growth.'

As per the highlighted fragments above,

Statements I and II are correct.

Statement III would not correct the situation and *would only provide temporary relief (as stated in the highlighted fragment)*

Hence, option C is correct.

3. Refer to: 'The bank revealed that an audit by the Reserve Bank of India showed a divergence of Rs 23,239 crore in the way it classified assets at the end of the last financial year, which led to increase in provisions in the last quarter. Most of these reclassified assets are linked to troubled projects in sectors including power and telecom.'

As per the highlighted fragment above, option A correctly states the reason for the sudden increase in provisioning by SBI.

Hence, option A is correct.

4. Refer to: 'While the figures are not strictly comparable after SBI completed merger with its associates, the loss was the result of both a massive increase in provisions to account for bad loans and a substantial amount of mark-to-market losses on its holding of government bonds.'

Statement III has not been mentioned in the passage.

Both statements I and II are correct as per the passage.

Hence, option B is correct.

5.   Refer to: 'If the financial performance of India's largest lender is anything to go by, <u>an end to the severe bad loans crisis may be much farther beyond the horizon than previously anticipated. For the first time in almost 19 years, the State Bank of India reported a quarterly loss of Rs 2,416 crore</u> for the three months ended December, compared with a net profit of Rs 2,610 crore in the year-earlier period.'

As per the highlighted fragment, only statement C matches with what is mentioned in the passage. The other options are either incorrect or not mentioned.

Hence, option C is correct.

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